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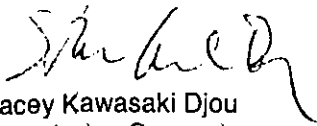
Re: Docket No. 2008-0083 - Application of Hawaiian Electric Company, Inc. for Approval of Rate Increases and Revised Rate Schedules and Rules

Dear Parties:

Enclosed please find information requests ("IRs") prepared by the Commission's consultant, the National Regulatory Research Institute, for the above-referenced docket. In preparation for the upcoming evidentiary hearing scheduled to commence on October 26, 2009, the applicable parties are directed to respond to the IRs within fourteen days of the date of this letter. Though parties have fourteen days to answer the IRs, the Commission encourages them to answer more quickly. Prompt answers will enable the Commission to potentially narrow the number of issues addressed in the hearing and thus the number of required witnesses.

Please contact the undersigned if you have any questions.

Sincerely,


Stacey Kawasaki Djou
Commission Counsel

SKD:cp

Enclosure

I. HCEI Positions and Non-Labor Costs

PUC-IR-116

Is the PV Host position referenced on page 2 of HECO S-703 one of the positions excluded from interim rates as shown on pages 12 and 13 of HECO ST-15? If not, is the position's cost included in interim rates? If so, please explain why this cost remains in rates.

PUC-IR-117

According to page 26 of HECO ST-15:

"All six positions are associated with Advanced Metering Infrastructure (AMI) Project and are identified below. Descriptions of their job duties have previously been provided as noted below.

- 1) Director, Advanced Metering Infrastructure (filled July 2007); position description previously provided in CA-IR-217, Attachment 1, beginning on page 19;
- 2) AMI Systems Administrator (filled September 2007); position description previously provided in CA-IR-217, Attachment 1, beginning on page 11;
- 3) AMI Project Manager (filled September 2007); position description previously provided in CA-IR-217, Attachment 1, beginning on page 14 and CA-IR-1, T-15, Attachment 31;
- 4) AMI Project Engineer (filled July 2009); position description previously provided in CA-IR-217, Attachment 1, beginning on page 1;
- 5) AMI Systems Engineer (to be filled August 2009, offer accepted); position description previously provided in CA-IR-1, T-15, Attachment 30, beginning on page 4, and CA-IR-217, Attachment 1, beginning on page 6;
- 6) AMI Systems Engineer (to be filled August 2009, offer accepted); position description previously provided in CA-IR-1, T-15, Attachment 30, beginning on page 4; and CA-IR-217, Attachment 1, beginning on page 6."

Were these positions among those excluded from interim rates as shown on pages 12 and 13 of HECO ST-15? If not, are their costs included in interim rates? If so, please explain why these positions' costs remain in rates.

PUC-IR-118

Does HECO anticipate implementing the AMI program, if approved, on the schedule that HECO proposed in Docket No. 2008-0303? If not, will the delay in this program affect (a) the work done by those in the positions referenced in PUC-IR-118, (b) the work done by other HECO employees whose costs are in both included and excluded from interim rates, and (c) the implementation of TOU rates?

PUC-IR-119

According to page 29 of HECO ST-15:

"The first Senior Technical Services Engineer position is envisioned to work 50% of the time on PV Host implementation activities, once the program is approved by the Commission. Until then, the person will support non-HCEI renewable energy projects and initiatives 100%."

Was this position among those excluded from interim rates as shown on pages 12 and 13 of HECO ST-15? If not, is the position's cost included in interim rates? If so, please explain why this cost remains in rates.

PUC-IR-120

According to pages 5 and 6 of HECO ST-15(D), the Senior Technical Services Engineer would spend 50% of her time on the PV Host Program. Was this position among those excluded from interim rates as shown on pages 12 and 13 of HECO ST-15? If not, is the position's cost part of the interim rates' cost of service? If so, please explain why this cost remains in rates.

PUC-IR-121

Was the cost of any employee positions specific to the Big Wind Implementation Studies included in interim rates? Were these positions among those excluded from interim rates on pages 12 and 13 of HECO ST-15? If not, please explain why these positions remain in rates.

PUC-IR-122

Was the cost of any employee positions specific to the Clean Energy Scenario Process (CESP) included in interim rates? Were these positions among those excluded from interim rates on pages 12 and 13 of HECO ST-15? If not, please explain why these positions remain in rates.

PUC-IR-123

Will the CESP, if approved by the Commission, be conducted by (a) employees from other parts of the company, (b) new employees, or (c) third parties? If HECO plans to utilize employees from other parts of HECO, please describe which divisions they are from and what work will be replaced by CESP activities. If HECO plans to hire new employees, state the expected timing of the hires, the approximate total costs, and the divisions into which they will be hired. If HECO plans to utilize third parties, describe when they will be hired and their approximate costs in each year.

PUC-IR-124

According to page 2 of HECO ST-14:

"The increase [in lease expenses] is primarily due to the addition of four new leases amounting to \$288,000 in the 2009 test year rate case estimates..." Further, "the increase is primarily due to the addition of four new leases amounting to \$288,000 in the 2009 test year rate case estimates..."

According to HECO's response to part A of CA-345, "The portion of the new leases space attributable to the four needs are: 1) HCEI initiatives, 9,751 square feet, or 38%..."

Was this portion of the lease expense removed from interim rates? If not, please describe why it should remain in rates if HCEI costs are disallowed.

II. Power Purchase Adjustment Clause

PUC-IR-125

Without the Power Purchase Adjustment Clause, how does HECO recover the capacity and non-fuel (O&M) components of power purchase agreements? Please include a description of the timing and regulatory lag associated with such collections.

PUC-IR-126

Please provide a table comparing HECO's actual cost recovery for the purchased power capacity and non-fuel (O&M) components of power purchase agreements to what its cost recovery would have been in each year from 2006 to 2008 if it had operated under the proposed Power Purchase Adjustment Clause. Also describe any timing differences in cost recovery between what HECO experienced and what it would have experienced with the proposed Power Purchase Adjustment Clause.

PUC-IR-127

Please describe how the proposed Power Purchase Adjustment Clause would affect the results of a lead-lag study.

PUC-IR-128 (TO HECO AND CA)

How, if at all, did the proposed Settlement Agreement's cash-working capital calculations consider the Power Purchase Adjustment Clause?

PUC-IR-129

Please describe how the presence or absence of the proposed Power Purchase Adjustment Clause could affect utility energy acquisition decisions. Could it affect decisions to build new generation or purchase power from third parties? If so, please explain how.

III. Energy Cost Adjustment Clause

PUC-IR-130

Under the current ECAC, through what process could HECO engage in fuel hedging?

PUC-IR-131

Does HECO currently have any long-term, fixed-price fuel contracts? If so, please describe their (a) size in terms of fuel quantity, (b) duration, (c) counterparty, (d) approval process, and (e) cost recovery process.

PUC-IR-132

Please describe how any of the new mechanisms proposed by HECO in this rate case (such as the Power Purchase Adjustment Clause) or outside of this rate case (such as decoupling and the Revenue Adjustment Mechanism) facilitate or inhibit fuel hedging.

PUC-IR-133

According to page 17 of HECO-ST-10(B), "If a utility offering a fixed rate or flat bill program did not hedge against this fixed price obligation, they would be effectively speculating on the fuel markets."

Is HECO willing or able to engage in fixed-rate billing without some form of physical or financial hedging? If so, is such hedging possible under the current ECAC?

IV. Rate Design

PUC-IR-134

How does HECO anticipate that inclining block rates will affect (a) average and (b) aggregate residential customer electricity consumption? Does HECO anticipate that changes in customer behavior will take place immediately or over a longer time period? Please provide all analysis used in estimating customer responses to the introduction of inclining block rates. Provide any estimates of short-term and long-term price elasticity of demand for different customer classes.

PUC-IR-135

How did HECO's electricity sales forecast consider changes in rate design? Such changes include modifications in TOU rates and the introduction of inclining block rates for residential service. If rate design changes were not considered in electricity sales calculations, please describe the reason for their omission from sales projections.

PUC-IR-136

According to Attachment 2 of HECO's response to PUC-IR-104, under the proposed Schedule R, the energy charge for the first 350 kWh consumed each month is \$26.2113 per kWh, followed by \$27.3648 per kWh for the next 850 kWh and \$28.4968 per kWh for consumption in excess of 1200 kWh. Please provide all analysis that HECO conducted indicating that for the proposed TOU-R the usage charge (inclining block rates) should increase by \$1.1535 for consumption in excess of 350 kWh and an additional \$1.132 for consumption in excess of 1200 kWh.

PUC-IR-137

According to Attachment 2 of HECO's response to PUC-IR-104, under proposed Schedule R, the energy charge for the first 350 kWh is \$26.2113 per kWh, followed by \$27.3648 per kWh for the next 850 kWh and \$28.4968 per kWh for consumption in excess of 1200 kWh. Did HECO consider proposing larger percentage increases in rates between tiers of inclining block rates? If so, please describe why steeper rate increases in rates as consumption increases would be inappropriate for HECO's Schedule R customers.

PUC-IR-138

The Commission observes that the percentage increase for the energy component of rates between the highest and lowest rate tiers for inclining block rates in certain other jurisdictions is much larger than that proposed by HECO,

whose proposed Schedule R rates appear to increase less than 9% from the lowest tier to the highest tier. See Southern California Edison at <http://www.sce.com/NR/sc3/tm2/pdf/ce12-12.pdf>, and Puget Sound Energy at http://www.pse.com/SiteCollectionDocuments/rates/elec_sch_007.pdf. Does HECO believe that its proposed rate increases are sufficient to affect customer behavior? If so, please provide all analysis that HECO has conducted to determine how much customers will likely change their behavior.

PUC-IR-139

According to Attachment 2 of HECO's response to PUC-IR-104, the usage charge in Schedule TOU-R is \$1.00 for consumption greater than 350 kWh and \$2.00 for consumption greater than 1,200 kWh. Please provide all analysis that HECO conducted indicating that for the proposed TOU-R the usage charge (inclining block rates) should be \$1.00 for consumption in excess of 350 kW and \$2.00 for consumption in excess of 1,200 kWh.

PUC-IR-140

According to Attachment 2 of HECO's response to PUC-IR-104, the usage charge in Schedule TOU-R is \$1.00 for consumption greater than 350 kWh and \$2.00 for consumption greater than 1,200 kWh. Did HECO consider having larger percent increases in rates between tiers of inclining block rates? If so, please describe why steeper increases in rate as consumption increases would be inappropriate for Schedule TOU-R customers.

PUC-IR-141

Please provide a narrative explanation and all documentation and analysis of why 350 kWh and 1,200 kWh are the appropriate tier cutoffs for inclining block rates.

PUC-IR-142

What percentage of HECO residential customers' average monthly electricity consumption (a) falls below 350 kWh or (b) exceeds 1,200 kWh?

PUC-IR-143

In designing rates, how many customers did HECO anticipate would participate in Schedule TOU-R? Please provide all documentation and analysis supporting these estimates.

PUC-IR-144

What percentage of customers eligible for TOU-R rates elected to use those rates in 2008? How many customers used Schedule TOU-R rates in 2008? Please describe any program-size or geographical limits on participation in Schedule TOU-R rates in 2008, as well as how those limits affected participation. Will any such limits persist in the test year?

PUC-IR-145

What percentage of customers eligible for Schedule TOU-C rates elected to use those rates in 2008? How many customers used Schedule TOU-C rates in 2008? Please describe any size or geographical limits on participation in Schedule TOU-R rates in 2008, as well as how those limits affected participation. Will any such limits persist in the test year?

PUC-IR-146

Please provide any analysis that HECO conducted on the change in participation for TOU-R rates based on reducing the number of periods under the rates from three to two.

PUC-IR-147

Please compare both average monthly kWh consumption and average monthly bills for customers who participated in Schedule TOU-R rates in 2008 and customers who did not.

PUC-IR-148

According to Attachment 2 of HECO's response to PUC-IR-104:

"In total and on average, Schedule R customers who move to Schedule TOU-R will have higher bills on Schedule TOU-R than on Schedule R, as shown in columns E and H. In order for customers to realize bill savings on Schedule TOU-R, they must modify their electricity consumption, for example, by shifting loads from on-peak to off-peak hours."

In designing rates and estimating total billing determinates, did HECO estimate that customers would, on average, modify the size and timing of their electricity consumption to enjoy savings from TOU rates? If so, how does HECO predict that customers will modify their behavior? Please provide any such analysis that HECO has conducted. If HECO did not estimate any change in behavior for Schedule TOU-R customers, please explain why such an analysis is inappropriate or unnecessary.

PUC-IR-149

Under HECO's proposed TOU-rates, how many kWh would a customer with the average residential load profile have to move from peak to off-peak periods to break even financially compared to using conventional Schedule R rates?

PUC-IR-150

Does HECO anticipate that the elimination of three-step Schedule P and Schedule J declining block rates will affect customer behavior? If so, please describe how such assumptions were included in HECO's projections of energy consumption. Provide all supporting documentation and analysis.

V. Commodity Prices

PUC-IR-151

Please reconcile the following statements:

Page 103 of HECO-T-7:

"The rising cost of commodities and transportation continues to increase the price paid for materials purchased by HECO. While price increases are dependent upon many factors such as the quantity of a specific commodity in a product and other non-material costs in the product, suppliers are passing on their higher costs for raw materials through increased prices to HECO. In HECO-746, a sampling of 50 items purchased by PSO&M is shown, including boiler tubes, electronic components, turbine material, and generator material. The average price increase for the items in this sampling was 34.5% for the three year period 2004 to 2007. The average price increase from 2006 to 2007 was 8.1%."

Page 23 of HECO ST-7: "The change in commodity prices does not correlate with the Production Maintenance expense for materials."

Is HECO arguing that there is no meaningful causal relationship between commodity prices and Production Maintenance expense for materials?

VI. CT-1 Unit Operation

PUC-IR-152

Has HECO to date dispatched the CT-1 unit to provide electricity or ancillary services to the grid? If so, please describe the date of any such dispatches. Please make the distinction between dispatch for testing and dispatch for commercial purposes.

PUC IR-153

Please describe and quantify any benefits (such as reserve capacity and ancillary services) that the CT-1 unit currently provides.

VII. Employee Discount

PUC-IR-154

According to Page 36 of HECO ST-1:

"The employee discount is a mechanism by which the Company can compensate its employees with minimal tax consequences. Generally, it would cost more in additional salary and/or benefits to replace the discount."

Please describe the reduced tax consequences for the employee discount compared to (a) enhanced pension benefits and (b) higher wages or salaries of a comparable economic value to employees.

PUC-IR-155

According to Page 36 of HECO ST-1:

"The employee discount is a mechanism by which the Company can compensate its employees with minimal tax consequences. Generally, it would cost more in additional salary and/or benefits to replace the discount."

To provide the same average financial value to employees as Schedule E rates does, how much more on aggregate and per employee would HECO have to spend based on differences in tax consequences? Please provide all supporting calculations.

VIII. Labor Expenses

PUC-IR-156

According to page 12 of HECO ST-15(a):

"In the Settlement agreement with the other parties, the Company reduced labor expenses by \$532,000 to reflect a 2.0% reduction in wage levels..."

According to page 88 of Exhibit HECO T-7:

"On an annual basis, general wage rates for test year 2009 are expected to be 7.50% (for bargaining unit employees) and 8.55% (for merit employees) higher than the respective 2007 wage rates (see HECO-1105)."

Please confirm or deny that the wage increase in the Proposed Settlement for the 2009 test year from the 2007 wage rates for merit employees is 6.55% (8.55% - 2%). If this is not the case, please describe the size of the expected average increase in merit employee wages.

PUR-IR-157

By what percentage did average HECO merit-based employee salaries increase during 2007 and during 2008?

PUR-IR-158

What is the basis for the 10% target wage differential between merit and non-merit employee wage rates discussed on page 5 of HECO ST-15(a)? Please provide any studies or analysis behind this target.

PUC-IR-159

If HECO increases wages for merit and non-merit employees as described in page 7 of HECO-S-1103, what will be the average wage differential between merit and non-merit employees at the end of the 2009 test year? If the Commission accepts the proposed Settlement Agreement with respect to wage increases, such that the wage increases for merit employees fall by 2 %, would HECO still provide the wage increases described on page 7 of HECO-S-1103?

PUC-IR-160

According to page 3 of HECO ST-9:

"However, with the slowing of testing, many of these regular employees have returned to their normal assignments, resulting in the release of the HECO temps. This results in no change to O&M expenses since the regular employees' mid HECO temp costs offset one another but will result in less deferred CIS project expenses than anticipated."

(a) Please quantify the initial projected 2009 test-year expense of the temps.

(b) How was the removal of temps reflected in interim rates?

PUC-IR-161

According to page 5 of HECO ST-15(B):

"The [Public Utility Employers Institute] survey reflects that in 1995, Hawaii Electric was ____ ranked highest in Lineman wages out of 14 companies that responded. In 2009, Hawaiian Electric was ranked ____ out of 14 companies that responded."

Please provide HECO's PUEI survey rankings and average wages for both 1995 and 2009 for all available employee functional areas or positions. Please state whether each such functional area or position is staffed by merit or non-merit employees.

IX. Advertising/DSM Expense

PUC-IR-162

According to page 16 of HECO ST-10, the 2009 Test Year HECO advertising expense for the Residential Direct Load Control ("RDLC") program is \$424,000, an increase of \$126,000 over 2008. HECO contends that the increase "reflects the anticipation that as the water heating portion of the program approaches market saturation more closely, efforts to market the program will become more expensive." With respect to this cost:

- (a) Beyond the assumption of higher expenses for reaching the remaining customers, what analysis did HECO conduct to estimate an increase of \$126,000 in advertising expenses?

- (b) What analysis did HECO conduct to indicate that \$424,000 was the appropriate level of RDLC advertising expense?
- (c) How has HECO examined whether RDLC advertising expenditures at either the 2008 or 2009 level are cost-effective based on RDLC benefits? Please provide all available documentation of such analyses.

X. IRP Expenses

PUC-IR-163

Please provide a full and detailed explanation of all IRP activities conducted by HECO in both 2008 and 2009 to date. Please quantify the costs of these activities, breaking such costs down into the expense of salaried employees and other expenses, such as consultants, and describe any such other expenses.

PUC-IR-164

Please provide a full and detailed explanation of all IRP activities anticipated through the remainder of 2009 and during 2010. Please quantify the costs of these activities, breaking such costs down into the expense of salaried employees and other expenses and describe any such other expenses.

XI. IT Expenses

PUC-IR-165

On page 4 of HECO-S-1103, HECO stated that it must periodically update the Ellipse 6 software, with the last upgrade taking place in 2002-2003. Did HECO consider normalizing the costs of Ellipse 6 software over the expected life of the software? Please describe why such normalization would or would not be appropriate.

PUC-IR-166

Please describe the costs associated with the eMESA software in more depth than provided in HECO-S-1103. Describe which costs are one-time implementation costs and which costs are ongoing. Provide estimated cost during both 2009 and 2010. How long does HECO anticipate that this software will be used and useful?

XII. Settlement Agreement Cost Increases

PUC-IR-167 (To HECO and CA)

Please provide a full and detailed narrative explanation of why all cost increases in the proposed Settlement Agreement were on a per-kWh basis rather than on a percentage basis for all revenues.

PUC-IR-168 (To HECO and CA)

Please describe all reasons why the rate increase resulting from this rate case should or should not be allocated to both the fixed and per-kWh components of rates.

XIII. Management Audit

PUC-IR-169

Please describe any management audits carried out by third parties for HECO since 2005. Include descriptions of any audits of specific projects, processes, or divisions. Please provide a summary of all findings and how the findings have been implemented.

PUC-IR-170

If HECO has not hired third parties to conduct management audits since 2005, please explain why HECO elected not to do so.

PUC-IR-171

Did HECO hire any third parties to assist it in the March 2, 2009 and April 13, 2009 reorganizations referenced on pages 4 through 7 of HECO ST-15? If so, please describe the role of such third parties and the nature of any reports they produced.

XIV. ROE

PUC-IR-172

How should HECO's ROE reflect the presence or absence of each of the following?

- (a) Decoupling
- (b) The Revenue Adjustment Mechanism
- (c) The REIP Surcharge
- (d) The Power Purchase Adjustment Clause

Please provide a narrative description and as much quantification of your answer as possible.